

## Press Release

Welspun Sattanathapuram Nagapattinam Road Private Limit

October 20, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1097.00	ACUITE A   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	1097.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A**' (read as **ACUITE A**) on the Rs. 1,097.00 Cr bank facilities of Welspun Sattanathapuram Nagapattinam Road Private Limited (WSNRP). The outlook is '**Stable**'.

The rating reaffirmation continues reflect the strong parentage and its robust support; demonstrated track record of WEL in executing road projects, benefits derived under the Hybrid Annuity Model, strong Counterparty linked revenue profile, Explicit waterfall mechanism through TRA/Escrow account with creation of DSRA & Major maintenance reserve and structural features of the TL repayment vs annuity receipts. These rating strengths are constrained by high Implementation and moderate funding risk given the change in PBC and additional EOT and moderate O&M Risk.

## About the Company

Welspun Sattanathapuram-Nagapattinam Road Pvt Ltd (WSNRP), is a Special Purpose Vehicle (SPV) incorporated on September 19, 2018. WSNRP was set up to implement the project for development, maintenance and management of 4 Laning of Sattanathapuram to Nagapattinam section of NH-45A (New NH- 332) from Km 123.800 to Km. 179.555 (Total Length – 55.755 Km) in Tamil Nadu under Bharatmala Pariyojna Phase - I under the category of Residual works of National Highway Development Programme (NHDP) under the Hybrid Annuity Model (HAM) model.

The project includes widening and upgrading the National Highway, the existing bridges/ structures/ culverts which are presently serving 2-lane traffic (7.0m wide) are to be widened to serve future 4-lane traffic. The major structures of the project consists of 6 Major Bridges, 13 Minor Bridges, 7 Flyovers, 4 VUP/LVUP, 1 ROB and 59 Culverts.

Welspun Enterprises Ltd (WEL), the Parent/Sponsor Company, directly holds 70 percent stake and another 29.90 percent stake in the company through its 49 percent subsidiary - Grenoble Infrastructure Pvt Ltd (GIPL), while Giriraj Renewable Pvt Ltd directly holds 0.01 percent stake. The bid project cost was originally estimated at Rs. 2004.51 Cr vis-à-vis the revised Bid project cost of Rs.1,905.37 Cr. This is to be funded through debt, sponsor's contribution and construction support from National Highway Authority of India (NHAI) in the ratio of 46.9

percent, 13.1 percent and 40 percent, respectively.

The concession agreement between WSNRP and NHAI was signed on December 03, 2018. The concession is granted to WSNRP for 15 years after the COD and during the concession, semi-annual annuity payment would be paid by NHAI to WSNRP. The original construction period is 730 days with additional COVID-related extension of 177 days and 121 days along with 139 days and further 90 days on account of delays in allocation of encumbrance free land, in getting various permission from Authority, delays /constraints faced in procuring the borrow earth and pond ash, delay in approval of final COS, confirmation of Revised BPC amongst others.

The project has received the appointed date on October 05, 2020. The financial closure for the project is already in place with the consortium of lenders.

### About the Parent Company - WEL

Welspun Enterprises Limited (WEL) is the infrastructure arm of Welspun Group promoted by Mr. B.K. Goenka and Mr. R R Mandawewala. WEL is an operating as well as holding company, executing Engineering Procurement and Construction (EPC) contracts for construction of roads, highways. The company has successfully executed Build Operate and Transfer (BOT) projects in the past and is presently focused on executing projects under Hybrid Annuity Model (HAM).

Besides a presence in road infrastructure through various SPVs, WEL is also engaged in oil and gas exploration activities through Welspun Natural Resources Private Limited (WNRPL). WNRPL in a joint venture with Adani Group has promoted Adani Welspun Exploration Limited. WNRPL has 4 Oil & Gas blocks of which one block is in Kutch, 2 blocks in Mumbai (under AWEL) and 1 block is in Palej (under WNRPL). WEL's equity shares are listed on Bombay stock exchange and National Stock exchange. As on 30 June 2022, the promoter and promoter group holds 53.52 percent of the equity in WEL.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of WSNRP to arrive at this rating. The rating has been notched-up by considering support from its parent/sponsor company – Welspun Enterprises Limited (WEL) in the form of shortfall undertaking, corporate guarantee amongst others.

### Key Rating Drivers

#### Strengths

#### **Strong Parentage/Sponsor; Demonstrated track record of WEL in executing road projects**

Welspun Enterprises Ltd (WEL) is the Sponsor/Parent Company, who are also the EPC contractors for the SPV - WSNRP. WEL has demonstrated strong execution capability in road projects (both HAM and BOT) as reflected by the completion of Welspun Delhi Meerut Expressway Pvt Ltd much ahead of its scheduled time along with achieving PCOD for other 4 HAM and 1 BOT project. WEL has declared divestment of these 6 completed road projects to Actis Highway Infra Limited (Actis) for an aggregate enterprise value of approximately Rs. 6,000 Cr. WEL currently has portfolio of captive 8 road projects, 7 assets under Hybrid Annuity Model (HAM) including WSNRP and one BOT road project. Acuité believes that the parent company's successful track record of project execution capabilities is expected to support execution of this project as well.

While enumerating the support extended by WEL to WSNRP, Acuité takes cognizance of

WEL's key strengths defined by its resourceful promoters, strong management team for executing highly value added work and in-house project monitoring, strong brand image, demonstrated execution capabilities in EPC segment, healthy order book providing medium-term revenue visibility, asset-light model by sub-contracting majority of its EPC work, Diversified revenue with execution of multiple projects in hand; exhibits lower customer concentration risk, consistent addition in operating income and profitability with strong underlying assets, high demonstrated capability of buying and turning around projects with weaker balance sheet, or not closed financially or execution is stuck projects, Strong financial risk profile aided by low leveraged capital structure and healthy debt protection metrics. The aforesaid strengths are countervailed to an extent by susceptibility of operating performance to timely receipt of orders and execution of projects in hand, high dependence on sub- contractors and working capital intensive nature of operations.

Acuité believes that the parent company's successful track record of project execution capabilities is expected to support execution of this project as well.

### **Robust Sponsor Support**

WSNRP is of strategic importance to WEL; the same is demonstrated by the tangible support from WEL. The support has been in form of WSNRP being its 70 percent wholly-owned SPV (30 percent indirectly held through its subsidiaries –GIPL and Giriraj Renewables Pvt Ltd). The level of WEL's management involvement is indicated by WSNRP's common brand name, common management and centralized decision making at WEL's level. WEL is expected to infuse 13.1 percent of the project cost of Rs.1,905.37 Cr (without indexation – Rs.249. Cr) and 16.3 percent of the bid project cost of Rs.2,322.56 (with indexation – Rs.304.25 Cr). The WEL's contribution is expected to be infused in form of equity, zero percent compulsory convertible debentures (CCDs) and unsecured loans and advances. Cumulative fund support has been to the tune of Rs.50.67 Cr as on March 31, 2022; in form of equity (Rs.21.7 Cr), unsecured loans (Rs.23.12 Cr) and CCDs (Rs.5.85 Cr). The balance portion of WEL's contribution is expected to be infused by FY2023 end. WEL has extended support to WSNRP by way of providing bank guarantee from its own sanctioned limits to avail mobilization advance from NHA, which will eventually be shifted to WSNRPL limits under the sub-limit of Term Loan Facilities sanctioned by project lenders.

To count on the aforesaid financial support is the unconditional and irrevocable corporate guarantee and shortfall undertaking provided by WEL. The corporate guarantee is provided for the rated debt towards any shortfall in the termination payment. The corporate guarantee will be available till the debt serviceability period.

While the shortfall undertaking affirms that WEL will meet any deficits or delays in debt servicing, debt service reserve account (DSRA) and termination payment. As stipulated in the financing documents, WEL shall also bring in funds required in case of any escalation in costs beyond estimated completion cost (which includes any cost escalation during completion phase and O&M and MM expenses during operational phase) which may impact debt servicing or completion of the project, for paying interest payments till the receipt of the first annuity and bridge the gap in case of any cash flow mismatch.

Acuité believes that WSNRP will benefit from the operational and financial support from its parent/Sponsor Company over the medium to long term.

### **Benefits derived under the Hybrid Annuity Model (HAM)**

The project executed under HAM model benefits from the upfront availability of right of way (80 percent) before declaring the appointment date, cost of the project being part funded by way of grants (40 percent), receipt of payments in the form of semi-annual annuities from the authority (for the remaining 60 percent of the project cost). The project also benefits from expected receipt of mobilization advance to the tune of 10 percent of the bid project cost at bank rates on declaration of appointed date and provision for granting deemed completion of the project in case 100 percent of the work is completed on the ROW which becomes available to it within 150 days of the appointed date. Other benefits include indexation done to the Bid Project Cost and Operation and Maintenance (O&M) cost

to inflation and interest payments on residual annuities during the operational period. Inflation indexed BPC protects the developers against price escalation to an extent. Over and above, stringent clauses for levy of damages, encashment of performance security as well as requirement of additional performance security in case of delay in execution due to reasons attributed to the concessionaire also expend some pressure on the developer for ensuring timely execution.

In case of WSNRP, the company received appointment date on October 05, 2020; before 80 percent availability of the ROW on mutual agreement between the NHAI and WSNRP i.e. at 52.7 percent. This was on account of the prolonged delay of the receipt of the judgement on obtaining environmental clearance and Coastal Regulation Zone (CRZ) clearance. With present ROW availability of 97% total envisaged project land, Acuité believes that WSNRP will benefit from favorable clauses in the concession agreement under the HAM and face lower execution challenges vis-à-vis projects under BOT model.

### **Strong Counterparty linked revenue profile**

During the construction/implementation phase, cash flow is assured in form of 5 milestone achievement linked grants (on achievement of every 10-25 percent of physical progress covering the 40 percent of the project cost) along with mobilization advance. These grants would be against the indexed BPC.

During the operational phase, cash flow is assured in the form of annuity payments from NHAI on bi-annual basis covering 60 percent of the project completion cost along with interest at 'bank rate plus spread' on reducing balance and inflation indexed O&M annuity. O&M cost shall be inflation indexed (through a Price Index Multiple (PIM)), which is the weighted average of wholesale price index (WPI) and consumer price index (CPI) in the ratio of 70:30. The annuity nature of the income stream linked to inflation indexed O&M annuity and bank rate linked interest annuity is expected to result in assured cash flow. Moreover, it has low counterparty credit risk, NHAI being its counterparty.

### **Explicit waterfall mechanism through TRA/Escrow account with creation of DSRA & Major maintenance reserve (MMR)**

As per the consortium sanction terms, Debt service Reserve account (DSRA) equivalent to 2 quarters of debt service obligation (Principal + Interest) out of which 1 quarter DSRA to be created immediately on receipt of 1st annuity and remaining 1 quarter DSRA immediately after 2nd annuity. If in anytime, amount in DSRA is utilized to make payment towards debt obligations, the same is to be immediately replenished by WSNRP from surplus cash flows, to the extent of amount so utilized upon receipt of the NHAI annuity from the date of utilization. WSNRP shall maintain Trust and retention account (TRA)/ESCROW account for cash flow management. The TRA shall be defined by presence of waterfall mechanism for prioritizing withdrawals during the construction and operational period. WSNRP's receipts from the NHAI to be routed through an escrow/TRA account with a well-defined cash flow. The NHAI is to deposit all annuities, termination payments and so on into the escrow account. Acuité believes that presence of such well-defined waterfall mechanism through Escrow/TRA to ensure prioritizing of withdrawals and prompt debt repayments.

### **Structured features of the TL repayment vs annuity receipts**

WSNRP's principal repayment obligations are judiciously structured with the annuity payment receipts from the NHAI with a 90-day cushion available to the project lenders, i.e. the principal repayment date is 3 months after the forthcoming annuities are received. Repayment of term loan shall be in 27 structured half-yearly instalments commencing 9 months from COD. The first instalment has been scheduled to be repaid post 9 months of COD, which provides cushion in case of any delay in achieving COD or in receipt of first annuity.

The project loan is to be amortised over 15 years and has a tail period of 3 annuities (the difference between the loan maturity and the concession maturity), which provides reasonable comfort to the lenders. Also, the financing documents stipulate a minimum DSCR of 1.25x post the COD, a breach of which shall lead to the discontinuation of restricted payments, until cured. Besides, to the lender's comfort, in case, annuity payment is received from NHAI earlier than envisaged repayment schedule, WSNRP shall pay the



respective instalment within 3 business days of receipt of such payment. To add, as per the financial documents, the project warrants 100 percent upfront equity to be bought in by promoters to meet the 30 percent of the physical progress and commence the drawn down of term loans.

### **Interest related risk mitigated through carving out of IDC during construction phase and maintenance of DSRA during operational phase along with shortfall undertaking from WEL**

Financial risks take the form of an annual variable interest rate which is linked to the marginal cost of lending rate of the individual lenders (1 Yr MCLR + spread). Any significant fluctuations in interest rates or absence of timely sponsor support is expected to be credit negative. The company will be servicing interest portion during construction period through the IDC. According to the financial documents, WSNRP is to maintain DSRA of 3 months' interest service in the form of fixed deposits from project cash flows (on receipt of 1st and 2nd annuity). The absence of debt service reserve account elevates the project risk profile. However, Acuité draws comfort from the presence of sponsor undertakings for making necessary payments in case of any such shortfall.

## **Weaknesses**

### **High Implementation and moderate funding risk given the change in PBC and additional EOT**

Given WSNRP received its appointment date on October, 2020, the Company has already started mobilization of resources at initial construction activities at site. WSNRP has incurred Rs.234 Cr as on March 31, 2022 (with indexation). Of which, 70 -75 percent has been incurred as EPC cost and remaining being other cost. This cost has been funded through mix of mobilisation advance of Rs.200 Cr (eligible for total mobilisation advance of max 10 percent of the BPC i.e. ~Rs.200 Cr; will be lower depending on the revised BPC). Remaining portion has been funded through promoter's fund support. With achievement of this physical project progress of ~10.57 percent as on August 31, 2022 (as per LIE report), the project has achieved the 1st Milestone under the CA and have submitted its claim for 1st milestone payment to NHAI with total work execution of ~ Rs 198.16 Cr (including indexation) in September 2022. Out of this total claim of ~ Rs. 198.16 Cr, company has already received ~ Rs. 59.57 Cr against the monthly RA bills from NHAI and balance amount ~ Rs 90.46 Cr (post netting off adjustment of mobilization advance and on other accounts) is also expected to be released shortly.

Notably, WSNRP has overcome the challenges of achieving the appointment date after a wait of 2 years in October 2020 with ROW availability as on date being 97 percent covering length of 54.07 Kms of the total 55.76 Kms. WSNRP was awarded tender for one of the package under the tender of covering area between Villuppuram to Nagapattinam. This was a part of the Rs.11,000 Cr package planned by the Transport Ministry for better connectivity of Tamil Nadu-Puducherry with Karaikal port (tenders were floated in 4 packages). After a wait since the signing of the CA on 3rd December 2018; in January 2021, Supreme Court gave nod to NH45 -A Villuppuram-Nagapattinam Highway project stating that there is no requirement for obtaining Environmental Clearances for the said project as land acquisition is not more than 40 meters on existing alignments and 60 meters on realignments or by passes. Besides, the said area is not passing through a hilly terrain and is already witnessing a decent traffic.

The project has sought total EOT of 527 days from the appointed date (177+121+139+90 days) on account of delays; of which 177 days are approved by NHAI, 121+139 days of approvals are awaiting final approval and additional 90 days are yet to be approved. Moreover, due to the change in BPC, 5th supplementary agreement is awaited followed by reassessment of debt proposal and preparation of TEV study by consortium of lenders.

WNSRP's project is exposed to moderate funding risk despite the debt being tied-up with a consortium of lenders. WSNRP could tie-up for debt within 150 days of signing the concession agreement. Moreover, the project sites comfort and support from lenders

despite a delay in receiving the appointment date. Nevertheless, the project is yet to witness the significant amount of 100 percent of the promoter's equity contribution, timely receipt of the grants and disbursement of the term loans. The above risk is mitigated to an extent asserting factors like strong financial risk profile of the sponsor and track record of timely support to its other HAM projects.

Acuité believes that timely promoter support and receipts of grants to achieve the COD as envisaged will remain key monitorable over the medium term.

**Moderate O&M Risk; albeit mitigated partially through lower O&M Cost due to rigid pavement and fixed price O&M contract with sponsor**

WSNRP will enter into a fixed-price and fixed-time O&M contract subject to indexation with WEL for taking up routine and major maintenance expenses, latest by 3 months prior to envisage COD or SCOD (Scheduled Commercial Operations Date), whichever is earlier. WEL, in turn shall enter at back-to-back contracts with its sub-contractors to naturally hedge in case of any price risk. The duration of the O&M contract shall be for the entire concession period. WEL has a reasonable experience in operating and maintaining road projects. Further, WEL has extended undertaking to infuse funds in case of cost overrun in O&M expenses and periodic maintenance expenses. WSNRP to create major maintenance reserve (MMR) to meet exigencies in any given point of time during the operational phase.

Besides, WSNRP relatively has a lower O&M cost to incur throughout its concession period post COD given the rigid (concrete) road/pavement vis-à-vis that of Bitumen. It is observed that the indexed O&M and MMR cost is around 6 percent of the total BPC which is relatively lower than other SPVs of similar nature. O&M requirement for a project depends on a lot of factors such as structure of the road, material used for road (Bitumen or Concrete road), Number of bridges/structures in the project. Rigid road (Concrete road) have higher construction cost but its O&M cost is significantly lower than Bitumen Road. Number of structures/ bridges/ Culverts also reduces the O&M cost. As per NHAI and in general, the expected life of Rigid Pavement is of 30 years. WSNRP project, being a Rigid Pavement project, is being constructed to last 30 years and it will not need periodic major maintenance for rigid pavement in 15 years of concession period.

**ESG Factors Relevant for Rating**

The infrastructure development industry has a significant social impact, as it is a labour intensive business. Social issues significant for the industry are community support and development, employee safety and human rights. Governance issues that are relevant include board and management compensation, transparency in related party transactions, shareholder's rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimize the environmental impact.

WEL, its parent company, has adequate policies in corporate governance category on board independence, key management retention and business conduct and ethics. The company has designated committees for CSR, Risk management, stakeholders relationship, nomination and remuneration amongst others. The company has a total of 8 number of board of directors out of which 4 number are independent and 2 number are female directors. The company has 3 independent members in its audit committee. Under its environment initiatives, the company has a policy in place for reduction in air pollution and waste. The social initiatives of WEL include policies on human rights and service quality standards. WEL has an ESG & CSR Committee constituting 5 members. Welspun group has planned key initiatives such as incorporation of ESG into the overall governance structure, environmental Initiatives, ESG Data Governance and whistle blower platform to facilitate anonymous reporting.

## Rating Sensitivities

### Positive

- Timely achievement of the COD without any major cost overruns and timely receipts of the grants
- Timely financial support from its parent, WEL
- Average DSCR above 1.25x (threshold as per the financial documents) on a sustained basis.

### Negative

- Significant delays or deduction in grants/annuities, resulting in weakening of coverages, and the absence of timely sponsor support on a sustained basis
- average DSCR below 1.25x
- Non-creation of DSRA on timely basis or depletion in DSRA
- Deterioration in the NHAI's or WEL's credit profile.
- Significant negative deviation in the revised bid project cost which is expected to be approved by the regional office of NHAI.

## Material covenants

WSNRP is expected to maintain certain ratios at threshold levels viz. Gross DSCR at 1.25x, Interest coverage ratio (ICR) at 1.15x and Debt/EBITDA at 9x. Any adverse deviation from such threshold levels might attract penalty ranging from 10bps to 50 bps per annum.

## Liquidity: Adequate

WSNRPs liquidity is expected to be adequate over the longer run. The term loan repayments are expected to begin in FY2025 (subject to change post reassessment by lenders), 9 months post COD. The Sponsor/parent Company has provided the corporate guarantee for the SPV. The availability of corporate guarantee, the repayment schedule and the proposed creation and maintenance of debt service reserve account (DSRA) will remain key monitorables over the medium term. Acuité believes that liquidity will remain adequate yet improve over the medium term.

## Outlook: Stable

Acuité believes that WSNRP will continue to benefit over the medium to long term due to its strong parentage, operational and financial support from WEL. The outlook may be revised to 'Positive', in case of timely commercialization of the project, leads to improvement in cash inflows, while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case delay in full commercialization leads to lower-than-expected revenues and profitability or any significant delay in sponsor support leading to deterioration of its financial risk profile and liquidity.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	101.13	38.38
PAT	Rs. Cr.	3.33	2.39
PAT Margin	(%)	3.29	6.23
Total Debt/Tangible Net Worth	Times	1.02	0.23
PBDIT/Interest	Times	1.33	2.55

**Status of non-cooperation with previous CRA (if applicable)**

WSNRP's rating was further downgraded and migrated to 'Issuer Non-Cooperating' by Brickwork Ratings, through its rating rationale dated December 15, 2021. The reason provided by Brickwork Ratings is non-furnishing of information by WSNRP.

**Any other information**

None

**Applicable Criteria**

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jul 2021	Term Loan	Long Term	100.00	ACUITE A   Stable (Assigned)
	Term Loan	Long Term	575.00	ACUITE A   Stable (Assigned)
	Term Loan	Long Term	347.15	ACUITE A   Stable (Assigned)
	Proposed Bank Facility	Long Term	74.85	ACUITE A   Stable (Assigned)



## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	74.85	ACUITE A   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	30-04-2019	Not available	31-03-2037	575.00	ACUITE A   Stable   Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	30-04-2019	Not available	31-03-2037	347.15	ACUITE A   Stable   Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	30-04-2019	Not available	31-03-2037	100.00	ACUITE A   Stable   Reaffirmed

Mobilisation Bank Guarantee is sub-limit of Term loan up to Rs.110.25 Cr for SBI

Mobilisation Bank Guarantee is sub-limit of Term loan up to Rs.110.25 Cr, performance bank guarantee (PBG) upto Rs.101 Cr & LC upto Rs.200.00 Cr for Yes bank

Note: The loan amounts are subject to change once the lenders approval on the revised COS / revised BPC and EOT

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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